

## Message Text

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ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 AID-20 CEA-02 CIAE-00 COME-00

EB-11 EA-11 FRB-02 INR-10 NEA-10 NSAE-00 RSC-01

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NSC-10 SS-20 STR-08 L-03 H-03 DRC-01 /177 W

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TO SECSTATE WASHDC 5988

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

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PASS TREASURY, FRB AND CEA

E.O. 11652 N/A

TAGS: EFIN, EEC

SUBJ: VIEWS OF THE MONETARY AND CENTRAL BANK

GOVERNORS' COMMITTEES ON THE EC COMMISSION

REPORT CONCERNING SHORT-TERM MONETARY SUPPORT AND PROGRESSIVE

POOLING OF RESERVES

REFS: A. EC BRUSSELS 4614; B. EC BRUSSELS 6010

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1. SUMMARY. THE MISSION HAS OBTAINED IN STRICT CONFIDENCE COPIES OF REPORTS BY THE EC MONETARY AND CENTRAL BANK GOVERNORS COMMITTEES AND THE THERON GROUP (A TECHNICAL CENTRAL BANK WORKING GROUP) ON THE EC COMMISSION'S PROPOSALS TO THE COUNCIL ON ADJUSTMENT OF SHORT-TERM MONETARY SUPPORT AND PROGRESSIVE POOLING OF RESERVES. THE REPORTS REVEAL CONSIDERABLE DIVERGENCE OF OPINION AMONG EC MONETARY EXPERTS ON THE WISDOM, VIABILITY AND TIMING OF THE COMMISSION'S PROPOSALS. A MAJORITY OF THE MEMBERS OF THE MONETARY COMMITTEE, DESPITE A NUMBER OF RESERVATIONS, BELIEVE IT IS IMPORTANT, PARTICULARLY FOR PSYCHOLOGICAL AND POLITICAL REASONS, THAT SOME RESERVE POOLING, HOWEVER MODEST, BE UNDERTAKEN AS QUICKLY AS POSSIBLE. THE CENTRAL BANK GOVERNORS ARE OPPOSED TO ANY FURTHER AUTOMATIC INCREASES IN CREDITS. THEY BELIEVE THAT, IN THE PRESENT CIRCUMSTANCES, RESERVE POOLING WOULD FACE SERIOUS DIFFICULTIES.

2. DESPITE THE MANY RESERVATIONS EXPRESSED IN THESE REPORTS, THE MAJORITY VIEW OF THE MONETARY COMMITTEE ON THE POLITICAL DESIRABILITY OF AT LEAST SOME RESERVE POOLING SUGGESTS THAT THE EC COUNCIL MAY BE UNDER CONSIDERABLE PRESSURE IN THE NEXT SEVERAL MONTHS TO REACT FAVORABLY, IN HOWEVER LIMITED A WAY, TO THE COMMISSION'S PROPOSALS. (COPIES OF THE THREE REPORTS ARE BEING POUCHED TO STATE/RPE, TREASURY AND FRB. END SUMMARY.

3. THESE REPORTS WERE ORDERED BY THE EC COUNCIL JUNE 1973 IN ORDER TO PROVIDE A BASIS FOR DISCUSSION OF THE COMMISSION'S PROPOSALS. INITIAL DISCUSSION WILL TAKE PLACE AT THE EC COUNCIL (FINANCE MINISTERS) MEETING IN BRUSSELS ON NOVEMBER 9. IN GENERAL, THE REPORTS ARE CAUTIOUSLY WORDED AND DO NOT ASCRIBE PARTICULAR VIEWS, WHETHER DISSENTING FROM OR APPROVING THE COMMISSION'S IDEAS, TO A PARTICULAR MEMBER STATE. THEY REVEAL CONSIDERABLE DIFFERENCES OF OPINION AMONG THE MEMBER STATES AS TO THE DESIRABILITY, TIMING AND PRACTICABILITY OF THE COMMISSION'S PROPOSALS. FOR EXAMPLE, THE MONETARY COMMITTEE EXPRESSES THE VIEW THAT AN INCREASE IN AVAILABLE SHORT-TERM CREDITS IS JUSTIFIED UNDER CERTAIN CONDITIONS, LIMITED OFFICIAL USE

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ALTHOUGH OPINIONS AMONG COMMITTEE MEMBERS DIFFER ON THE DESIRABLE VOLUME, DURATION AND DEGREE OF AUTOMATICITY OF SUCH CREDITS. SOME MEMBERS BELIEVE THAT AN INCREASE IN CREDITS COULD AGGRAVATE INFLATION IN THE COMMUNITY AND THAT THE AUTOMATIC CHARACTER OF SUCH AN INCREASE COULD WEAKEN THE ELEMENT OF INTEGRATION IN THE COMMUNITY'S EXCHANGE SYSTEM. SOME MEMBERS OF THE COMMITTEE CONSIDER THAT EXTENDING THE DURATION OF THE CREDITS TO 12 MONTHS,

AS PROPOSED BY THE COMMISSION, IS HIGHLY DESIRABLE, WHERE-  
AS OTHERS BELIEVE THAT THE PRESENT 6 MONTHS IS SATISFACTORY.

4. SOME MEMBERS OF THE MONETARY COMMITTEE BELIEVE THAT  
RESERVE POOLING CANNOT BE JUSTIFIED GIVEN THE CURRENT  
LEVEL OF COORDINATION OF ECONOMIC POLICY WITHIN THE  
COMMUNITY AND THAT, UNDER THESE CIRCUMSTANCES, POOLING  
COULD EVEN WEAKEN SUCH COORDINATION AS ALREADY EXISTS.  
IN THEIR VIEW, MOREOVER, ADJUSTMENT OF THE COMMUNITY'S  
CREDIT ARRANGEMENTS DOES NOT REQUIRE RESERVE POOLING,  
WHEREAS THE COMMISSION LINKS THE TWO. ON THE OTHER  
HAND, A MAJORITY OF THE MEMBERS BELIEVE THAT IT IS  
IMPORTANT, PARTICULARLY FOR PSYCHOLOGICAL AND POLITICAL  
REASONS, TO PROCEED WITH SOME RESERVE POOLING, HOWEVER  
MODEST, AS SOON AS POSSIBLE.

5. THE CENTRAL BANK GOVERNORS EXPRESS GREATER RESERVA-  
TIONS THAN THE MONETARY COMMITTEE WITH REGARD TO THE  
COMMISSION'S IDEAS. THEY NOTE AT THE BEGINNING OF  
THEIR REPORT THAT THE STUDY OF CERTAIN TECHNICAL  
QUESTIONS CANNOT BE BROUGHT TO A CONCLUSION  
UNTIL THE NECESSARY POLITICAL DECISIONS ARE MADE. THE  
GOVERNORS ARE VIRTUALLY UNANIMOUS IN REJECTING ANY  
INCREASE IN THE AUTOMATIC GRANTING OF CREDITS. EVEN  
THOSE GOVERNORS WHO ARE GENERALLY SYMPATHETIC TO THE  
COMMISSION'S PROPOSALS CONSIDER THAT ANY EXTENSION OF  
CREDITS SHOULD NOT GIVE RISE TO A WEAKENING OF  
EXISTING CONSULTATION PROCEDURES.

6. OPINIONS OF THE GOVERNORS DIFFER ON ADJUSTMENT OF  
SHORT-TERM MONETARY SUPPORT. SOME SUPPORT THE  
COMMISSION'S PROPOSALS AND NOTE THAT CURRENT SHORT-TERM  
SUPPORT CREDITS ARE INADEQUATE GIVEN THE VOLUME OF  
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CAPITAL MOVEMENTS AND THE NEED FOR ASSISTANCE TO WHICH  
THESE CAN GIVE RISE, THE EXTENT OF INTERNATIONAL SWAP  
FACILITIES, AND THE INCREASED NEED FOR CREDIT RESULTING  
FROM THE EFFECTIVE FREEZING OF A LARGE PART OF MEMBER  
STATE RESERVES. SEVERAL GOVERNORS, ON THE OTHER HAND,  
CONSIDER EXCESSIVE THE INCREASES PROPOSED BY THE COMMISSION  
IN THE DURATION AND AMOUNT OF CREDITS. THE CONSENSUS OF  
THE COMMITTEE SEEMS TO BE THAT ANY INCREASE SHOULD BE  
MODEST AND THAT UNUSUAL SITUATIONS CALLING FOR ASSISTANCE  
CAN BE HANDLED ON AN AD HOC BASIS.

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7. THERE IS DISAGREEMENT AMONG THE GOVERNORS AS TO WHETHER  
OR NOT THERE NEED BE A LINK BETWEEN ADJUSTMENT OF  
SHORT-TERM CREDIT AND RESERVE POOLING. SOME BELIEVE  
THAT ADJUSTMENT OF CREDIT CAN BEST BE REALIZED FROM A  
TECMICAL POINT OF VIEW THROUGH RESERVE POOLING, SINCE  
IT WOULD ENABLE THE MONETARY COOPERATION FUND TO PLAY A  
GENUINE INTERMEDIARY ROLE BETWEEN DEBTORS AND CREDITORS.  
POOLING WOULD ALSO PUT INTRA-COMMUNITY SETTLEMENTS ON  
AN EASIER AND MORE MULTILATERAL BASIS. OTHER GOVERNORS,  
HOWEVER, BELIEVE THAT IF POOLING MADE CREDITS TOO EASILY  
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AVAILABLE, INFLATION WOULD BE AGGRAVATED AND THAT, IN ANY CASE, SHORT-TERM CREDIT ARRANGEMENTS DO NOT, FROM A TECHNICAL POINT OF VIEW, REQUIRE POOLING.

8. THE GOVERNORS ARE VIRTUALLY UNANIMOUS IN ADMITTING THAT RESERVE POOLING WOULD FACE SERIOUS DIFFICULTIES. THEY NOTE, AMONG OTHER THINGS, THAT (A) IMF POSITIONS ARE NOT LEGALLY TRANSFERABLE TO THE MONETARY COOPERATION FUND; (B) TRANSFER OF SDRS TO THE FUND WOULD REQUIRE SPECIAL NEGOTIATIONS WITH THE IMF IN ORDER TO OBTAIN FOR THE FUND THE STATUS OF "OTHER HOLDER"; (C) UNCERTAINTY WITH REGARD TO THE ROLE OF GOLD IN A NEW INTERNATIONAL MONETARY SYSTEM WOULD MAKE CENTRAL BANKS RELUCTANT TO PART WITH THEIR GOLD; AND (D) POOLING ONLY OF DOLLARS, GIVEN THE IMPORTANCE SUCH A STEP WOULD CONVEY TO THIS CURRENCY, CANNOT BE CONTEMPLATED. MOST GOVERNORS ALSO REJECT THE POSSIBILITY OF POOLING MEMBER STATE CURRENCIES ALONG WITH ACTIVE RESERVES.

9. THE THERON GROUP REPORT, ON WHICH THE GOVERNORS DREW FOR THEIR OWN REPORT, EXPRESSES STILL GREATER RESERVATIONS ON A NUMBER OF TECHNICAL ISSUES. A MAJORITY OF THIS GROUP HOLDS THAT, IN GENERAL, THE COMMISSION'S REPORT IS TOO FUTURE ORIENTED AND AMBITIOUS, ASSUMES A NUMBER OF PROBLEMS ARE ALREADY SOLVED AND IGNORES TECHNICAL ISSUES (ARISING FROM THE CURRENT POLITICAL AND MONETARY SITUATION) WHICH COULD CONSTITUTE SERIOUS OBSTACLES IN PRACTICE TO RESERVE POOLING. THE GROUP FURTHER BELIEVES THE COMMISSION TAKES INSUFFICIENT ACCOUNT OF THE FACT THAT THERE HAS BEEN LITTLE PROGRESS IN ECONOMIC AND MONETARY UNION -- PARTICULARLY IN HARMONIZATION OF ECONOMIC POLICY -- AND THAT THE FUTURE ROLES OF GOLD, SDRS AND THE DOLLAR REMAIN UNDECIDED.

10. WHILE IT IS APPARENT THAT MOST OF THE GOVERNORS AND MANY MEMBERS OF THE MONETARY COMMITTEE (WHICH INCLUDES CENTRAL BANKERS) BELIEVE RESERVE POOLING IS PREMATURE IF NOT UNNECESSARY, WE FIND IT SIGNIFICANT THAT A MAJORITY OF THE MONETARY COMMITTEE FAVORS SOME RESERVE POOLING ON POLITICAL AND PSYCHOLOGICAL GROUNDS. ALTHOUGH LIMITED OFFICIAL USE

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OUR PERM REP AND COMMISSION CONTACTS STILL DO NOT EXPECT ANY SIGNIFICANT DECISIONS TO RESULT FROM THE EC COUNCIL (FINANCE) MEETING ON NOVEMBER 9, IT SEEMS LIKELY THAT THE COUNCIL WILL BE UNDER CONSIDERABLE PRESSURE IN THE NEXT FEW MONTHS TO BE FORTHCOMING ON AT LEAST SOME ASPECTS OF THE COMMISSION'S PROPOSALS. HARTMAN

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